IAWC Exhibit 3.0SR

ILLINOIS-AMERICAN WATER COMPANY

SURREBUTTAL TESTIMONY

OF

RONALD D. STAFFORD

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OF

RONALD D. STAFFORD

Q. Please state your name and business address.

A. My name is Ronald D. Stafford, and my business address is Illinois-American Water Company ("Illinois-American" or "IAWC"), 300 North Water Works Drive, P.O. Box 24040, Belleville, IL 62223.

Q. Are you the same Ronald D. Stafford who has submitted rebuttal testimony for Illinois-American Water Company in this proceeding?

A. Yes.

Q. What is the purpose of your surrebuttal testimony in this case?

A. The purpose of my surrebuttal testimony is to respond to portions of the rebuttal testimony submitted by Illinois Commerce Commission Staff witnesses David A. Borden and Mary H. Everson; and Illinois Industrial Water Consumers witness Michael Gorman.

Q. At pages 5-7, Mr. Gorman suggests that the tracking of Demonstrated Savings is a dubious task prone to error and approximation. Do you agree?

A. No. As indicated in my rebuttal testimony and the testimony of Mr. Flaherty, appropriate methods do exist to determine future levels of savings with reasonable certainty. In reference to the example cited by Mr. Gorman, detailed information will be maintained for the specific savings event associated with elimination of a billing clerk position. Information will include a summary of the specific functions performed by this position on a pre-acquisition basis. In year 1, proper and detailed documentation as to why the functions performed by this position could either be eliminated as a direct result of the Acquisition, or absorbed within the existing post acquisition structure, will be prepared.

By properly documenting specifics during the first year following the Acquisition (including the functions performed by the position), the Company will be in a position to continuously assess new technology available which could have affected the savings event, even absent the Acquisition. For the billing clerk example, this could include changes in metering, correlating meter data, issuing and collecting bills, etc. To properly measure the effect of technological improvements and other exogenous factors on Demonstrated Savings, the Company will not only maintain a record of the functions performed previously by the eliminated position, but also maintain a record of how similar functions are being performed by the post Acquisition Company. Changes in how similar, if not absolutely identical, functions are performed by IAWC and other affiliates within the American System will provide a very reliable indication of how changes in technology are impacting these functions. For example, if a position providing similar services for IAWC in year 15 is eliminated due to improved technology in issuing and collecting bills, then the specific savings event identified above will be reviewed to assess whether the billing clerk position would have been needed absent the Acquisition. If the position would reasonably have been eliminated, then any associated costs of implementing such new technology would be considered in assessing whether it is reasonable to eliminate 100% of the Demonstrated Savings for this event, or some lesser percentage. Presumably, such new technology would not be implemented if there were not qualitative or quantitative benefits. If the benefits are quantitative, the level of Acquisition Savings would either be eliminated or would be reduced to something less than 100%. Similarly, if new water quality regulations would require additional testing starting in year 15, a review will be made to determine if a new position would have been needed by the former CUCI system to perform such testing (or a third party engaged). If so, but such position is not needed by IAWC post-acquisition, additional savings will be documented. In either case, the burden of proof will be on the Company.

Q. Is Mr. Gorman correct in suggesting, at pages 6 and 7, that an analysis of savings will be extremely difficult for the Commission to evaluate?

A. Absolutely not. Again as indicated in my rebuttal testimony and the testimony of Mr. Flaherty, a detailed record will be maintained documenting not only the Acquisition related savings but also documenting how technology and other factors would influence the Acquisition Savings. The Commission and other parties can review this information to assess its accuracy relative to quantification of each savings event. The Company will make every reasonable effort to properly track and quantify the impact of exogenous factors and properly document inflationary impacts on such Savings. The Company believes that it can properly document each savings event.

Q. At page 7, Mr. Gorman criticizes the trending methodology you discussed on the grounds that it does not reflect cost reductions that may be realized by the companies on a stand-alone basis. Is this a valid criticism?

A. No. When a cost reduction that would reasonably have been implemented on a stand alone basis is identified, measurement of such cost reductions will be based on the level of such savings in then current year dollars, e.g., year 15 dollars or year 40 dollars. That way, the remaining Savings, if any, in say year 15, associated with a particular savings event will be equivalent to that remaining Savings number back in year 1 inflated to year

15 levels. The impact of cost reductions on savings in any given year will be equivalent with the impact of having carved out such savings on day one and never having reflected the savings in the measurement process.

Q. At page 10, Mr. Gorman criticizes your analysis of the allocation of savings between ratepayers and shareholders under IIWC's recommendation. Would you respond to this testimony?

A. Yes. Mr. Gorman's testimony fails to recognize that savings to be allocated are only the Acquisition Savings. The opportunity to realize these savings is the result of the Company's acquisition of the Utility Assets. As the Commission has found in GTE/Bell Atlantic, Docket 98-0866, and Ameritech/SBC, Docket 98-0555, the only relevant savings are net savings. Use of a method other than net savings results in an inaccurate financial measurement of ratepayer and shareholder allocations of savings and the revenue requirement associated with achieving those savings.

Q. Is Mr. Gorman correct in suggesting, at page 16, that a forty-year plan for savings sharing "is simply unworkable and should be rejected"?

A. No. The Commission routinely considers information dating back to the early 1900s (and even in some cases for water utilities the late 1800s) in setting rates and deciding other issues. For example, established guidelines for the Commission to decide issues related to fair rates of return to the shareholder date back to the early 1900s. Similarly, utility plant in service for water utilities can date back to the late 1800s. The Company is required by the Commission to keep property records for all property used to provide service to its customers. In IAWC's current rate case, Docket 00-0340, the Company replaced a 100 year old water treatment facility. To properly measure rate base and depreciation expense in that proceeding, it was necessary to remove the original cost of these 100 year old facilities. In routinely setting depreciation rates, service lives, and net salvage values of water property are determined. Many classifications, including transmission and distribution mains and service lines, have useful lives that average well in excess of 40 years. In developing net salvage values in the Company's most recent depreciation study (used to establish new depreciation rates in Docket No. 00-0340), 19 years of historical experience were used to estimate the expected cost of removal or salvage 10 to 105 years into the future, when the related assets would be retired from service. My point is that regulated water and wastewater utilities maintain information that goes well beyond 40 years. The Commission considers such information in setting rates. Savings resulting from the Acquisition will go into perpetuity, whether or not such savings are always correlated to the Acquisition. Thus, it is not unreasonable for the Commission to consider a 40 year plan.

Q. At page 17, Mr. Gorman criticizes the trending methodology discussed in your Rebuttal Testimony. Would you comment on this testimony?

A. Yes. Mr. Gorman's concerns are misplaced. As indicated above, Demonstrated Savings will continue into perpetuity, whether or not such savings are always correlated to the Acquisition. If it is determined at a later date that specific savings or savings events could reasonably be achieved absent the Acquisition, then such savings will be eliminated in the measurement of Acquisition related savings in future years. Similarly, if intermediate events would cause a need which is avoided as a result of the Acquisition, then additional savings will be added to the Demonstrated Savings.

Q. At page 19, lines 10-18, Mr. Gorman suggests that, for purposes of the Savings Sharing Proposal the Company should be restricted to recovery of only those savings identified in the present case. Do you agree?

A. No. There is no basis for such a limitation. Section 7-204 does not require a quantification of all savings in this proceeding and the Commission has indicated in past proceedings that the quantification of savings should be made at the time that the calculation is to be used for rate purposes. The Company should be permitted to identify and quantify all Acquisition Savings which exist at the time of each future rate case.

Q. At page 6, Mr. Borden suggests that the Company's approach "may result in a static view of CUCI operations from a specific point in time that may not be representative of its actual operation". Would you comment on this suggestion?

A. The Company's approach is designed to recognize the dynamic nature of measuring Acquisition related savings. New technology, changes in operations, and other exogenous factors can, and do, impact savings levels over time and will be considered, when appropriate, in measuring Acquisition related savings.

Q. At page 25, Mr. Borden states "[b]ut in reality, many of the current customers of CUCI and IAWC will no longer be alive to receive those benefits [in forty years]."

A. Whether CUCI's or IAWC's current customers are alive in 40 years does not change the fact that there are substantial quantitative and qualitative benefits resulting from the Acquisition, and those benefits will begin to be realized by those customers at the time of the Acquisition. Customers do not have to wait 40 years for benefits from the Acquisition. Moreover, over the forty years, customers will continue to benefit from the Acquisition, whether they presently reside in the Company's service area or not. It is entirely reasonable to amortize the Acquisition costs over a long-term period during which the Acquisition will provide benefits.

Q. Would you comment on Mr. Gorman's proposal that recovery of the Acquisition Revenue Requirement be limited to the CUCI operating areas.

A. Yes. Mr. Gorman notes that a large percentage of the Acquisition Savings will be realized in the CUCI operating areas. Although this is correct, that does not indicate that recovery of the Acquisition Revenue Requirement should come only from those areas. As proposed by the Company, the Acquisition Revenue Requirement would be recovered from rate areas in direct proportion to the level of Acquisition Savings experienced in those areas. Thus, if 94% of Savings are experienced in the CUCI areas, 94% of the Acquisition Revenue Requirement would be assigned to that area. I believe that this approach is appropriate. Operating areas other than the CUCI areas should provide revenue to cover the Acquisition Revenue Requirement in proportion to the level of Acquisition Savings those areas experience. This methodology assures that recovery of the Acquisition Revenue Requirement under the Savings Sharing Proposal can never have an adverse rate impact in any rate area.

Q. At pages 2 and 3, Ms. Everson maintains that the Commission should not be in the position of attempting to verify savings resulting from this Docket in a rate proceeding in the year 2040. Would you respond to this testimony?

A. Yes. As mentioned previously, the Commission routinely assesses the impact of historical events and/or activities on current regulatory decisions. In addition, the Commission also assesses the impact of long term arrangements on a frequent basis. For example, the Commission, just two years ago, approved a 30 year agreement with four 10 year renewable periods between IAWC and one of its customers. The Commission did not have to verify, in that proceeding, what rates would be charged to customers 30 to 70 years after the Order, but, rather, had to determine whether the agreement was in the public interest. If the Commission were deciding today the level of Acquisition related savings to be incorporated in rates in 2040, then there would be validity to Staff's concern. This is not the case in this docket, though. The Commission's responsibility in this proceeding is to determine whether this Acquisition meets the criteria outlined in Section 7-204 of the Public Utilities Act.

Q. At page 5, beginning at line 107, Ms. Everson states "[t]he savings that the Company claims it can prove, simply will not be verifiable in a year other than the one in which the 'savings' actually occur." Is this a valid criticism of the Savings Sharing Proposal?

A. No. Under the Company's proposal, measurement of Demonstrated Savings is a dynamic process that will continue to identify and measure Acquisition related savings and document each savings event and changes in each savings event, as the Company's witnesses have described. The ability to audit and verify savings in future years, therefore, is not a valid concern.

Q. At page 6, Ms. Everson states that "[t]he determination of cause for these changes [referring to changes in operations which result in cost reductions] becomes more difficult, since they do not occur in that vacuum." Would you comment on this testimony?

A. Yes. The Company's proposal recognizes that changes do not occur in a vacuum. By properly documenting each savings event and understanding the nature of activities giving rise to the foregone costs, an accurate assessment can be made of the impact of operational changes on such savings.

Q. Ms. Everson also maintains, at page 6, that "[t]he Company has not demonstrated in this proceeding how savings can be verified as actually occurring in the test year if that test year itself is a forecasted estimate." Would you comment on this point?

A. As discussed further in the testimonies of Messrs. Hamilton and Flaherty, the documentation developed for each savings event provides an audit trail to determine whether savings exist in the forecasted test year. After the information is reviewed by an outside auditor to support the reasonableness of the Company's cost of providing utility service in the forecasted test year, Staff and other parties will have the opportunity to assess the reasonableness of the forecast, similar to any other forecasted component of cost of service.

Q. At page 6, beginning at line 132, Ms. Everson maintains that "[t]he Company is proposing something which it most likely cannot deliver." Is Ms. Everson correct in this regard?

A. No. Savings sharing proposals are not a new invention created by IAWC. This Commission and others have recognized that measuring savings is one approach to recognizing that both ratepayers and shareholders benefit from an acquisition. The Company's proposal in this proceeding will provide for an accurate measurement of savings resulting from this Acquisition.

Q. At pages 7-8, Ms. Everson discusses an example which indicates that it may be difficult to demonstrate savings related to chemical expenses in future proceedings. Would you comment on this testimony?

A. Yes. Ms. Everson's testimony fails to recognize my Rebuttal Testimony at page 6, lines 16 and 17, which acknowledges that it will be the Company's burden to prove that lower chemical prices are "shown to have been a direct result of the Acquisition." Quite simply, if the Company cannot make this demonstration, then any resulting savings will not be tied to the Acquisition. For the Company to be successful in correlating savings in chemical prices to the Acquisition, documentation will need to be provided that link the savings directly to mass purchasing or other similar benefits available to IAWC and not available to CUCI or a company the size and structure of CUCI during the test year at issue. In future proceedings, one method of demonstrating the continued existence of this Acquisition related saving is to obtain pricing information that indicates a lower cost per unit for the former CUCI operations combined with IAWC's when compared with what could have been attained for a company the size of CUCI alone, considering demographic and statistical data regarding chemical requirements for the former CUCI service areas as of the test year.

Q. At page 8, Ms. Everson criticizes the assignment of savings due to elimination of a position for a billing clerk. Would you comment on Ms. Everson's testimony in this regard?

A. Ms. Everson's criticisms fail to recognize that a record of all Acquisition related savings will be maintained and continually reviewed for reasonableness. If a position is eliminated because of the Acquisition, then savings resulting from the Acquisition have been realized. If the identified savings could reasonably have been expected to have occurred in year 15, year 30, year 40, for example, absent the Acquisition, then those savings will no longer be assigned to the Acquisition in year 15, year 30, or year 40, as the case may be.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.